

July 07, 2010

Pakistan Market

Oil sales up 9% in FY10

MORNING BRIEFING



KSE100 Index: Closing 9575.20 ↓ (-62.77)

Oil consumption in fiscal year 2010 stood at 20.3mn tons, up 9% from last year. Increased furnace oil demand from the power generation sector more than countered the decline in sales of High Speed Diesel (HSD) during the year. Worryingly, however, the share of locally produced oil in consumption has fallen to 40% from 47% last year primarily due to the circular debt issue. During June 2010, though oil consumption rose by 6%YoY, a decline of 2% was witnessed on a MoM basis. Attock Petroleum (APL), which registered record sales of 119k tons in June 2010 (as per provisional numbers), gained market share (5.6% in FY10 vs 5.2% in FY09) over the other listed OMCs, Pakistan State Oil (PSO) and Shell Pakistan (SHEL) - a result of expansion of its retail distribution network. At current levels, we have 'Buy' call on all three; APL, PSO and SHEL.

Oil Product sales (in 000 tons)

	FY10				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	7,435	4,216	1,292	490	-3%	-10%	-13%	66%
FO	9,261	8,219	148	413	15%	18%	65%	-13%
MS	1,936	881	463	97	27%	21%	28%	86%
HOBC	11	6	3	-	14%	12%	15%	NM
SKO	164	99	9	16	-8%	-2%	-53%	-19%
LDO	75	16	-	46	-15%	-46%	NM	-9%
JP	1,435	712	467	69	33%	20%	30%	-1%
Total	20,317	14,149	2,383	1,130	9%	8%	3%	17%

Source: JS Research, * excludes Non-Energy products & local JP8

Oil sales arrive at 20.3mn tons – up 9%YoY in FY10

Furnace oil remained prominent in total product sales throughout the fiscal year 2010 (YoY growth in each month except Mar 2010) on the back of robust demand from the power generation sector. Petrol sales too, were a key highlight of the year, as they increased by 27%YoY given a reduced price differential, and gas load management within the country. Jet fuel sales were buoyed by increased demand

(up 33%YoY) from the neighbouring war stricken Afghanistan to fuel war planes. On the other hand, subdued economic activity within the country negatively affected HSD sales, a major source of fuel for the transportation sector, and were down 3%YoY to 7.4mn tons. Hence, total oil consumption stood at 20.3mn tons – up 9%YoY, in which share of local production declined by ~7ppts from last year to 40% on account of the persisting circular debt issue.

June oil sales up 6%YoY, but down 2%MoM

Oil sales during June 2010 were up 6%YoY to 1.8mn tons, with FO and Mogas again being the primary growth driving products. However, on a MoM basis, sales were down by a slight 2%. Though sales for all regulated products increased during the month (except jet fuel) due to delay in uplift of products from May end to early June because of anticipated fall in prices of June, decline in FO sales after record volumes in May dragged total oil consumption growth into red.

Market share of listed OMCs

	FY10	FY09
PSO	69.6%	70.5%
SHEL	11.7%	12.5%
APL	5.6%	5.2%

Source: JS Research

Outlook

We remain upbeat on the oil marketing sector, as we believe there remains further upside to furnace oil sales courtesy the upcoming Rental Power Plants and IPPs. However, the raise in minimum tax from 0.5% to 1% of turnover remains a major risk to our thesis. At current levels, we maintain our 'Buy' recommendation on APL, PSO and SHEL.

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Also in focus

Provisional tax revenue for FY10: Rs1,312bn

The Federal Board of Revenue (FBR) reported provisional tax collection figures for the fiscal year 2010, with total tax revenue collection arriving at Rs1,312bn against set the target of Rs1,380bn, a shortfall of Rs68bn. The finalized numbers however are expected to be higher, with an anticipated positive adjustment of Rs13bn-Rs18bn to the provisional statistic. This should bring down the actual annual shortfall against the revenue target to Rs50bn-Rs55bn. For FY11, FBR has a set a target of Rs1,667bn based on expected GDP growth of 3% and an inflation rate of 12%.

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